

# TRENDS AND ISSUES

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## MEETING HEALTH CARE EXPENSES IN RETIREMENT: HOW READY ARE NEAR-RETIREEES?

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### EXECUTIVE SUMMARY

Near-retirees in higher education are concerned about their ability to afford health care in retirement (42% are very concerned and 29% somewhat concerned), with younger near-retirees being more concerned than older individuals. In fact, near-retirees are more concerned about health care than with other retirement-related issues, such as having enough money to retire when planned and outliving their savings in retirement.

Accompanying this concern about affording care is a great deal of uncertainty regarding the amount typically spent by retirees for premiums, deductibles, co-payments and other medical expenses. Such uncertainty likely contributes to and reinforces individual concerns. Thirty-five percent of near-retirees in higher education say they do not know how much the typical retiree spends and an additional 34% think it is \$5,000 or less; the actual amount averages \$10,000.

Despite their level of concern and uncertainty regarding health care expenses, only 17% have discussed the issue with a financial advisor. At the same time, 97% of higher education near-retirees think that it very or somewhat

important to receive advice about paying for health care in retirement as they approach retirement. In addition, a savings vehicle specifically earmarked to pay health-related expenses during retirement appeals to most near-retirees; 21% say they would be very likely to contribute to such a savings plan, with an additional 42% somewhat likely to contribute.

A current challenge for colleges and universities is to manage the retirement patterns of their workers, particularly faculty. But if individuals feel ill-prepared to meet health care expenses, many will likely delay their retirement. Any changes to employer-sponsored retiree health benefits should consider the potential for such unintended consequences. At the same time, providing information and advice regarding strategies to meet health care expenses in retirement, as well as providing a means to save for the expenses likely to be incurred, can address such roadblocks to retirement.



## INTRODUCTION

A major variable in an individual's retirement security calculus is health care expenses once retired. In fact, there are multiple variables an individual must consider when planning for these expenses and the uncertainty surrounding them is large. This uncertainty is exacerbated by the potential for fundamental reform of the health care system in the U.S.<sup>1</sup>

- *Medicare*—95% of individuals age 65 and older are covered by Medicare, but the program is under financial stress and changes in benefit levels and costs are almost certain. In 2008, HI expenditures began exceeding tax and premium revenue.<sup>2</sup> According to the system's board of trustees, "HI tax income and other dedicated revenues are expected to fall short of HI expenditures in all future years... Closing deficits of this magnitude will require very substantial increases in tax revenues and/or reductions in expenditures."<sup>3</sup>
- *Supplemental insurance*—61% of seniors have some form of insurance to supplement Medicare for co-payments, deductibles and uncovered medical services. If not covered by employment-based retiree health insurance, Medicare beneficiaries frequently purchase Medigap policies on their own. Individuals retiring before age 65 are not eligible for Medicare until age 65 and need another means to cover medical expenses in the interim. Employer-sponsored retiree coverage in the private sector has become less common and less generous.<sup>4</sup> To date, colleges and universities have not followed the lead of the private sector in this regard, but financial pressures could move them in that direction.<sup>5</sup>
- *Cost*—The average premium for pre-65 retirees with an employer subsidized plan is \$3,984; for plans covering the retiree plus one dependent, it is \$7,668. For post-65 retirees, the cost of an individual plan is \$3,840; \$7,848 for themselves plus one dependent.<sup>6</sup> Premiums for Medicare Parts B and D are approximately \$1,500. In addition, individuals must cover any co-payments and deductibles, plus pay for any otherwise uncovered services such as vision and dental care.

A major challenge for workers, including higher education employees, is preparing to meet health care needs in retirement, including saving enough to fund these expenses. An individual retiring today at age 65 could easily need \$200,000 or more in savings to pay premiums for insurance to supplement Medicare, as well as to cover co-payments, deductibles and other out-of-pocket expenses throughout retirement.<sup>7</sup> But individuals must also understand issues such as their options under Medicare and the provisions of any retiree health insurance that might be provided by an employer. If individuals feel ill-prepared to address health care needs, many could delay their retirement. Such delays would impact colleges and universities as they try to manage the retirement patterns of their workers. Any changes to employer-sponsored retiree health benefits should consider the potential for such unintended consequences.

This report examines the findings from a survey of college and university employees aged 50 to 70 who are saving for retirement. These individuals were surveyed about their understanding, concern and preparations for meeting health care needs in retirement.<sup>8</sup> This report presents data for different classes of employees in higher education (faculty, staff and administration) and those who are relatively young (age 50 to 64) versus those who are relatively old (age 65 to 70) among "near-retirees."<sup>9</sup>

## MEETING RETIREE HEALTH CARE EXPENSES?

Near-retirees are concerned about their ability of afford good health care in retirement (table 1). Given the variables involved and the uncertainty surrounding them, this is not surprising. Forty-two percent of near-retirees in higher education are very concerned about being unable to afford good health care in retirement, with an additional 29% somewhat concerned. In fact, near-retirees are more concerned about health care than with other issues they will face in retirement—by comparison, 33% are very concerned about having enough money to retire when planned and 22% are very concerned about outliving their savings in retirement.

**TABLE 1  
CONCERN ABOUT HEALTH CARE EXPENSES IN RETIREMENT AMONG HIGHER EDUCATION EMPLOYEES  
(AGE 50 TO 70)**

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMIN
Being unable to afford good health care during retirement						
Very concerned	42%	45%	22%	32%	52%	46%
Somewhat concerned	29	29	34	32	31	22
Not too concerned	17	17	22	23	10	18
Not at all concerned	11	10	22	14	7	14
Perceived retiree annual out-of-pocket spending for health care						
\$0 to \$5,000	34	32	39	36	35	23
\$5,001 to \$7,500	8	8	8	6	10	7
\$7,501 to \$10,000	12	13	7	10	13	15
Over \$10,000	12	12	9	13	8	17
Don't know	35	35	37	36	33	38
Perceived importance of being advised on paying for retiree health care						
Very important	58	60	41	52	64	59
Somewhat important	28	27	35	31	25	27
Not too important	8	7	12	11	5	5
Not at all important	6	5	12	6	5	9

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.  
Source: TIAA-CREF Institute (2009).

Younger near-retirees (age 50-64) are more concerned than older near-retirees (age 65-70), 45% very concerned compared with 22%, respectively. This is likely due in part to their longer time horizon until retirement and the increased uncertainty that accompanies it. In addition, staff are the most concerned; an effect that is likely correlated with lower incomes. The necessary savings amounts discussed above do not vary with income levels, thus they represent a larger percentage of resources for lower income individuals.

Accompanying this concern about affording care is a great deal of uncertainty among near-retirees regarding the amount typically spent out-of-pocket during retirement for health care-related expenses. Such uncertainty likely contributes to and reinforces individual concerns. Over one-third (35%) of near-retirees in higher education say they do not know how much the typical retiree spends (table 1). An additional 34% think it is \$5,000 or less. Considering premiums, co-payments, deductibles, and payments for otherwise uncovered services and supplies, the typical retiree can expect to pay approximately \$10,000 annually. So two-thirds of near-retirees do not have a realistic perception of the health care expenditures they likely face once retired; this figure rises to 76% for older near-retirees. An additional 8% of all near-retirees think annual retiree spending is between \$5,000 and \$7,500, 12% between \$7,500 and \$10,000, and 12% think it is over \$10,000. Those in administration tend to have a somewhat more realistic view of these costs, though the majority still does not.

Despite their level of concern and uncertainty regarding health care expenses, relatively few near-retirees have discussed the issue with a financial advisor. Sixty percent of higher education near-retirees have consulted with a financial advisor or other financial professional within the past two years regarding their preparations for retirement, but only 28% of these (17% of all near-retirees) have discussed retirement health care expenses. Individuals are more likely to have discussed investment allocations, savings amounts, drawing income from savings, coordinating retirement income with that of a spouse, bequests for loved ones, and minimizing estate taxes with an advisor than paying for retirement health care expenses. Among those who have met with an advisor, administrators are the most likely (41%) to have discussed paying for health care.

At the same time, 58% of higher education near-retirees think that it very important to receive advice about paying for health care in retirement as they approach retirement (table 1). An additional 39% consider it somewhat important. Younger near-retirees are more likely to consider the topic important (60% very important vs. 41% very important among older individuals).

**EMPLOYER-SPONSORED COVERAGE**

One-half of near-retirees report that their institution provides health insurance to its retirees, 32% report that it does not and 18% do not know (table 2). Older near-retirees are less likely to not know (9%) and more likely to report no such coverage (42%). The presence or absence of employer-provided retiree health insurance impacts the anticipated retirement date for a sizeable minority of workers (table 2). Among those reporting coverage, 34% say its availability affects the age at which they think they will retire. This effect is stronger for younger near-retirees (36%) compared with older near-retirees (20%). By comparison, 46% of those reporting no retiree health benefits (or unsure of such coverage) say the lack of insurance affects the age at which they think they will retire. Again, this effect is stronger for younger near-retirees (47% vs. 39%). As mentioned above, such a potential impact should be considered by colleges and universities if they explore changes to their retiree health benefits.

**TABLE 2  
PRESENCE AND IMPACT EMPLOYER-SPONSORED RETIREE HEALTH INSURANCE COVERAGE AMONG  
HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)**

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMIN
Does current employer provide coverage?						
Yes	50%	50%	50%	50%	52%	48%
No	32	30	42	29	34	33
Don't know	18	20	9	21	14	19
Does availability of employer-provided coverage affect anticipated retirement age?						
Yes	34	36	20	29	47	20
No	66	64	80	71	53	80
Does lack of employer-provided coverage affect anticipated retirement age? <sup>a</sup>						
Yes	46	47	39	43	53	40
No	54	53	61	57	47	60

<sup>a</sup> Includes individuals who respond "don't know" to whether employer provides coverage.

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.

Source: TIAA-CREF Institute (2009)

Among near-retirees reporting employer-sponsored health insurance in retirement, 20% say the retiree pays the entire premium, 13% say the employer pays the entire premium, 49% report that the premiums are shared and 18% do not know who pays. There appears to be a fair amount of uncertainty regarding how the employer-sponsored insurance coordinates with Medicare. One-third (34%) do not know if the insurance covers individuals who retire before Medicare eligibility at age 65 and 37% do not know whether it covers expenses that Medicare does not after age 65. It is clear that many near-retirees with employer-sponsored coverage need a better understanding of that coverage so that they can plan with full information.

At the same time, relatively few near-retirees (16% of those with employer coverage and 23% of those without or who don't know) have given a great deal of thought to how they will pay for expenses not covered by Medicare or insurance, including premiums, co-payments and deductibles (table 3). Forty-six percent of those with employer coverage and 37% of those without or who are uncertain have given little if any thought to how they will pay for uncovered expenses. Planning for such expenses appears limited at best among near-retirees.

**TABLE 3  
THOUGHT GIVEN TO PAYING FOR OUT-OF-POCKET MEDICAL EXPENSES IN RETIREMENT AMONG  
HIGHER EDUCATION EMPLOYEES (AGE 50 TO 70)**

	ALL	AGE 50-64	AGE 65-70	FACULTY	STAFF	ADMIN
Among those with employer provided coverage						
A great deal	16%	14%	27%	12%	21%	18%
Some	38	38	38	41	42	24
Hardly at all	26	27	19	26	23	30
Not at all	20	20	16	21	14	28
Among those without or unsure of employer provided coverage						
A great deal	23	24	22	16	27	34
Some	40	39	44	38	47	32
Hardly at all	21	21	21	28	14	18
Not at all	16	16	13	19	12	16

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.  
Source: TIAA-CREF Institute (2009)

**PREPARING FOR RETIREE HEALTH EXPENSES**

Survey respondents were informed that the typical person retiring today at age 65 will need at least \$100,000, and possibly more than \$200,000, to pay for health care expenses during retirement. Respondents were then asked how well prepared they felt to meet such expenses. Twenty-three percent feel very well prepared, 43% somewhat prepared and 32% do not feel well prepared. Younger near-retirees are less likely to feel very well prepared (21% vs. 36% for older near-retirees). However, given the levels of concern highlighted above and the lack of thought focused on addressing the need, many individuals may not be as well prepared as they seem to think.

At the same time, a savings vehicle specifically earmarked to pay health-related expenses during retirement appeals to most near-retirees (table 4). Twenty-one percent say they would be very likely to contribute to such a savings plan, with an additional 42% somewhat likely to contribute. Younger near-retirees are more likely to contribute which corresponds with the finding that they are more concerned about affording health care in retirement and less likely to feel very well prepared in their ability to pay.

**TABLE 4  
LIKELY USE OF RETIREMENT HEALTH CARE SAVINGS PLAN AMONG HIGHER EDUCATION EMPLOYEES  
(AGE 50 TO 70)**

	<b>ALL</b>	<b>AGE 50-64</b>	<b>AGE 65-70</b>	<b>FACULTY</b>	<b>STAFF</b>	<b>ADMIN</b>
Likelihood of contributing? <sup>a</sup>						
Very likely	21%	22%	15%	22%	17%	26%
Somewhat likely	42	43	36	38	48	38
Not too likely	20	19	22	20	18	23
Not at all likely	12	11	22	14	14	6
Don't know	5	5	6	6	3	6

<sup>a</sup> Respondents were asked—How likely would you be to contribute to a savings account specifically designed to pay health related expenses for you, a spouse and eligible dependents during your retirement? Investment earnings would never be taxed and the account could only be used for medical expenses.

Note: Only those with a defined contribution plan as their primary retirement plan were surveyed.

Source: TIAA-CREF Institute (2009)

## CONCLUSION

Meeting health care expenses in retirement is both a need and a challenge for all workers, including those in higher education. This survey has demonstrated that near-retirees in higher education are both concerned about affording good health care once retired and uncertain regarding how much they can expect to pay themselves for such expenses. They have not sought professional advice regarding how to prepare for these expenses, but feel that it is important to do so as they near retirement. Individuals who do not feel adequately prepared to meet such expenses are likely to delay retirement. This becomes an issue for colleges and universities already challenged in managing the retirement patterns of their faculty. The challenge is exacerbated by financial pressures on institutional expenses. Any changes to employer-sponsored retiree health benefits designed to control expenditures should consider the potential for unintended consequences regarding actual decisions to retire. It appears that providing information and advice on preparing for retiree health care expenses, combined with a means to save for these expenses, offers institutions an opportunity to address these roadblocks to retirement.

## ABOUT THE AUTHOR

Paul Yakoboski is a Principal Research Fellow with the TIAA-CREF Institute. He conducts, manages and communicates research on issues such as income and asset management in retirement, defined contribution plan design, the preparation of higher education faculty for retirement, managing faculty retirement patterns, options for funding retiree health care, and research on issues related to strategic management in higher education. He is also responsible for the development and execution of Institute symposiums on such issues. In addition, Yakoboski serves as director of the Institute's Fellows Program and editor of the Institute's *Trends and Issues* and *Advancing Higher Education* publication series.

Prior to joining the Institute, he held positions as Director of Research for the American Council of Life Insurers (2000 to 2004), Senior Research Associate with the Employee Benefit Research Institute (1991 to 2000) and Senior Economist with the U.S. Government Accountability Office (1989 to 1991). He is a member of the American Economic Association and serves on the editorial advisory board of *Benefits Quarterly*. He previously served as Director of Research for the American Savings Education Council (1995 to 2000). Between 1986 and 1988 he served as an adjunct faculty member at Nazareth College. Yakoboski earned his Ph.D. (1990) and M.A. (1987) in economics from the University of Rochester and his B.S. (1984) in economics from Virginia Tech.

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**ENDNOTES**

- 1 The Affordable Health Care for America Act, or H.R. 3962 was passed by the House of Representatives on April 7.
- 2 HI is funded by payroll taxes (a combined employer/employee rate of 2.9%), taxation of Social Security benefits and premium payments. Revenue in excess of expenses has resulted in a trust fund surplus, but the trust fund will be exhausted by 2017.
- 3 U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services, *2009 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund* (Washington, DC: U.S. Government Printing Office, 2009) (p. 4).
- 4 Forty-five percent of large private sector employers provide subsidized coverage to current workers and retirees and an additional 14% provide access-only benefits; 22% offer subsidized retiree coverage to new hires and 23% offer access-only benefits. In plans that offer an employer subsidy, the subsidy covers less than half of the total cost, on average. In addition, a number of employers have eliminated prescription drug coverage or substantially reduced benefits to keep cost increases in check. Source: Towers Perrin, *2010 Retiree Health Care Cost Survey*.
- 5 Eighty-two percent of colleges and universities still provided retiree health insurance coverage for employees as of 2006 and 80% for employees' spouses. Seventeen percent of these institutions paid the entire premium for retirees, 51% shared the premium with the retiree, and in 33% the retiree paid the entire premium. Forty-five percent of colleges and universities reported no changes to retiree benefits between 2000 and 2006, while 34% made retiree benefits less generous and 20% more generous. Source: Conley, Valerie Martin. *Survey of Changes in Faculty Retirement Policies 2007*. American Association of University Professors (2007).
- 6 Towers Perrin, *2010 Retiree Health Care Cost Survey*.
- 7 Source: Fronstin, Paul, Dallas Salisbury and Jack VanDerhei. "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model." EBRI Issue Brief no. 317 (May 2008).
- 8 1,002 individuals were surveyed by telephone during April and May, 2009 regarding their financial preparations for retirement and their views regarding those preparations. PublicMind of Fairleigh Dickinson University fielded the survey and collaborated with the TIAA-CREF Institute and TIAA-CREF on development of the questionnaire. The survey was restricted to individuals whose primary retirement plan is a defined contribution plan. Survey results were weighted to be representative of the population of interest. Individuals who did not envision themselves as ever retiring or leaving the workforce for any reason were excluded from the survey.
- 9 The survey sample included 500 individuals age 50 to 64, 502 individuals age 65 to 70, 584 individuals employed as faculty, 230 employed as staff, and 188 in administration positions.